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Slowdown in the recovery of employment and the youth labor market

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The recovery in total employment observed since mid-2020 came to a halt in the early months of 2020, largely because of the waves of Covid-19 contagion, which involved self-care responses on the part of individuals, as well the implementation of isolation measures in several cities to lessen contagion by restricting mobility. Both circumstances produced sharp monthly reductions in employment during January and April. In May, the prolongation of the third wave of contagion and problems with law and order again limited any recovery in job numbers. One favorable development in this scenario was the subtle growth in salaried and formal employment, contrary to the situation with non-salaried and informal employment. The expansion of formal employment, which is usually not as fast due to higher hiring costs, was observed not only in the household survey but also in administrative records and is favored by a larger number of job vacancies and very low separation rates. A look at the different branches of activity shows the behavior of employment has been mixed, and job recovery in most sectors has been slower than the recovery in economic activity. This implied, at least in accounting terms, an increase in labor productivity. On the other hand, the outflow from inactivity has stopped, so labor participation has remained relatively stable in recent months.

This being the case, the incipient recovery in employment and the stability of the labor supply led to a situation where the unemployment rates (UR) in May were similar to the levels observed so far in 2021: 15.2% and 16.5% nationwide and in the thirteen major cities, respectively. However, when breaking down these rates by population groups, one continues to see major disparities, particularly among women and young people. Moreover, there are upward trends in the number of unemployed who are without a job for several months and among the inactive who are making the transition to unemployment. On the income side, those in the urban non-salaried segment, which was the hardest hit during the pandemic, have continued to recover, and the number of hours worked is now approaching pre-pandemic levels. Taking all this into consideration, the report estimates the unemployment rate will begin to decline during the remainder of 2021, although moderately. The national unemployment rate is forecast to average between 13.7% and 15% in 2021, with 14.4% as the central value, in which case it would end the year at around 13.8%. Long-term UR estimates consistent with stable inflation (Nairu) suggest a positive UR gap of around 2.3 percentage points (pp) for 2021. If so, the slack in the job market would continue, bringing downward pressure to bear on inflation via wage costs.

As usual, the report is divided into two sections. The first offers a detailed look at the main economic developments in the labor market. The second section examines recent progress in the labor market for young people, who played a leading role in the demonstrations witnessed throughout the country during May. It also analyzes the effects of programs implemented in the past to stimulate job creation for youths. Specifically, the impact of the 2010 First Employment Act is estimated, and the results found in the literature on the *Jóvenes en*

Acción (Youth in Action) program are compiled. Both policies were found to be complementary and effective in reducing youth unemployment, but they entail fiscal costs that require sustainable financing strategies. Additionally, based on the estimate, there is a rough quantification of the effects of eliminating payroll taxes for young people. This exercise provides a benchmark for diagnosing the possible impact of Decree 668 of 2021 on youth employment. It was enacted recently by the national government and consisted of a temporary payroll subsidy for new young employees.

Fuente: https://d1b4gd4m8561gs.cloudfront.net/en/slowdown-recovery-employment-and-youth-labor-market